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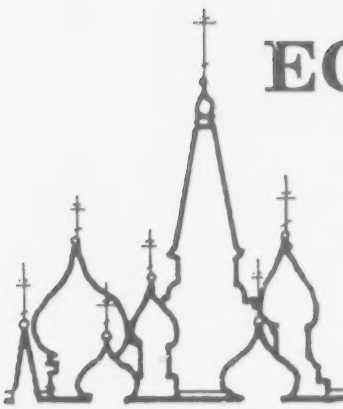

ECONOMIC NEWSLETTER

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ECONOMIC RESULTS FOR 1989

(Million tons unless otherwise indicated)

Product	1989 Output	1989 as % of 1988
Electricity (bil. kw hrs)	1,722	101
Oil	607	97
Gas (bil. m^3)	796	103
Coal	740	96
Steel	160	98
Metal Cutting machine tools (1000 units)	23.7	106
Computer technology (billion rubles)	7.7	120
Tractors (1000 units)	532	95
Agricultural equipment (billion rubles)	6.4	93
Mineral Fertilizer	34.3	92
Pharmaceuticals (billion rubles)	3.7	106
Paper	6.3	99.9
Cement	140	100.7
Meat	12.9	100.8
Sausage products	3.9	102.
Edible fish products	5.7	96
Butter	1.7	100.4
Cheese	0.9	101
Wholemilk products	34.6	103
Margarine products	1.5	100.6
Granulated sugar	13.3	111
Confectionary	5.1	105
Canned foods (bil. cans)	20.9	99
canned fruit/vegs	14.8	97
Nonalcoholic beverages (million dekaliters)	613	101
Alcoholic beverages (million dekaliters)	125	119
Footwear (mil. pairs)	827	101
Television sets (million units)	9.9	103
Refrigerators/freezers (million units)	6.5	104
Radios (million units)	8.6	107
Tape recorders (million units)	5.7	103
VCRs (thousands)	125	171
Sewing machines (thousands)	1,553	100.2
Washing machines (million units)	6.7	110
Vacuum cleaners (million units)	5.1	106
Furniture (bil. rubles)	9.6	107
Motorcycles (thousands)	990	100.8
Cars (thousands)	1,217	96
Paper Goods (mil. rubles)	906	109
Household soap (thousand tons)	726	110
Toilet soap (thousand tons)	306	107

Livestock Herds

(Million Head as of January 1st)

	In all sectors of the economy		Stock owned privately	
	1989	1990	1989	1990
Cattle	119.6	118.3	23.8	24.1
Cows	41.8	41.7	13.0	13.2
Swine	78.1	78.9	14.5	15.2
Sheep and Goats	147.5	144.5	34.7	35.9

The Results for 1989

Goskomstat, the Soviet statistical authorities, seemed to be engaged in a contest to see which of their statistical reports can sound the most pessimistic. The report for 1989 is very dreary and depressing. While as usual, gross indicators such as what the Soviets call gross national product, increased 3%, the underlying data suggest that conditions were considerably less promising. Indeed, if the Soviets had published figures indicating increases in real GNP, there probably would have been a decline, especially if allowance was made for inflation. The Soviets now acknowledge that if account is taken of unsatisfied demand, the scale of inflation in the consumer sector reached 7.5% for 1989. There is every reason to believe that in fact the rate of inflation was probably double that, which of course would mean that there would have been a significant drop in the real per capita income.

The accompanying table indicates in part how serious some of the production problems are. Oil production is down 3%, coal production is down 4%, steel – 2%, automobile – 4%. Other figures indicate that housing construction is down 3% and freight shipments are down 2%. Particularly worrisome was the fact that the increase in industrial production for all of 1989 was reported to be 1.7%; in the second half of the year, the increase in industrial output was only 1% in the third quarter, and 0.9% in the fourth quarter. The Soviets acknowledge that much of this drop was due to the fighting in Azerbaijian and Armenia, and the strikes that occurred. These strikes, particularly in the coal mines in July, affected metallurgical production. The average number of people on strike per day was 30,000.

Of course, not all economic sectors suffered a drop in production. It was particularly encouraging that the grain harvest rose by 16 million tons. However, offsetting that was the fact that the grain sold to the state was 27 million tons, or almost one third, less than expected. (The reason for the drop is explained in the accompanying article, which appeared in the Wall Street Journal.)

There are other areas of concern as well. While the sale of meat and sausage products increased this past year, sales of potatoes, vegetables, fruit, eggs, sugar, and tea have fallen. The Soviets acknowledge that despite a 20% increase in food imports, sales of sausage products and animal fats are rationed in one out of every five Soviet cities, among those surveyed. And sugar is rationed throughout virtually the entire country. Much of the shortage is due to hoarding. Thus, it's estimated that one fifth of the annual production is laundry detergent is hoarded – as a consequence, detergent is rationed. With these shortages of goods, it is not surprising that inflation continues to be a very serious concern. The issuance of money increased 50% over the money that had been put in circulation in 1988. The money in circulation thus increased by 18 billion rubles. No surprisingly, the average monthly money wage for urban workers rose 9-13%, depending on the type of sample being surveyed. This also explains why money saved in savings banks rose 12%, whereas consumer good sales rose 7%.

In sum, it is a rather bleak picture, and a situation that must be improved if Gorbachev hopes to convince the Soviet people that they will have a brighter future.

Foreign Exchange Rates

The foreign exchange rate table which follows reflects the new, more liberal rate for foreign currency. In effect, the Soviets as of November have established two rates of exchange: one for what I call official transactions, and the other for tourists. Thus, American tourists now receive six rubles to the dollar, compared to the sixty cents they received previously. The difficulty, however, is that

those engaged in business transactions try to take advantage of the disparity and create a form of arbitrage. Thus, those inside the Soviet Union are eager to sell to foreigners for dollars, not rubles. This has exacerbated the supply problem as more and more Soviets try to sell manufactured goods to foreigners, at the tourist rate. As a consequence, goods which have always been in abundant supply, such as watches, now suddenly are absent from Soviet shelves. This has led to an increase in the smuggling of Soviet consumer goods.

FOREIGN EXCHANGE RATES
as of February 7, 1990
Quoted in rubles

	Official Rate	"Special" Rate
£100 Sterling	101.59	1015.90
100 Aust. Sch.	5.09	50.90
100 D. Marks	35.83	358.30
100 D. Guilders	31.80	318.00
100 U.S. Dollars	60.10	601.00
100 Fr. Francs	10.54	105.40
1,000 Jap. ¥	4.13	41.30
10,000 It. Lire	4.83	48.30
100 Swiss Frs.	40.46	404.60
100 Nor. Kroner	9.29	92.90
1,000 Bel. Frs.	17.18	171.80
100 Sw. Kronor	9.83	98.30

ARDEN HOUSE 1990

The theme for the 1990 Arden House Conference on American-Soviet Relations will be "Gorbachev: The First Five Years." The conference is scheduled for April 6-8, 1990 and will be held at Arden House, the former country estate of Ambassador Averell Harriman.

Sponsored jointly by Harvard's Russian Research Center and the Harriman Institute of Columbia University, the Arden House conference is one of the premier conferences examining American-Soviet relations. Now in its fourteenth year, the conference attracts participants in the fields of business, govenment, education and research from throughout the world.

This year's conference panels are quite diverse and include: democratization, foreign policy, economic performance, joint ventures, ruble convertibility, congressional views, the waiver of Jackson-Vanik, and Eastern Europe. Confirmed panelists include- Adam Ulam, Director of the Russian Research Center; Robert Legvold, Director of the Harriman Institute; Timothy J. Colton, Professor of Government, Harvard; Walter D. Connor, Professor of Political Science, Boston University; Alexander Vershbow, Director, Office of Soviet Union Affairs, U.S. Department of State; Marshall Goldman, Associate Director of the Russian Research Center; Rick Ericson, Professor of Economics, Columbia; Jeffrey Sachs, Professor of Economics, Harvard Univ.; George Cohon, McDonald's Canada; Congressman Les AuCoin; Congressman Stephen Solarz; Dennis Kloske, U.S. Under Secretary of Commerce for Export Administration; Ambassador Warren Zimmermann, U.S. Ambassador to Yugoslavia; Ambassador Mark Palmer, U.S. Ambassador to Hungary; and Ambassador John R. Davis Jr., U.S. Ambassador to Poland.

The final conference program and application form are enclosed. Please do note hesitate to contact Marshall I. Goldman or Catherine Reed for more information (617) 495-4038.

JOHN M. OLIN CRITICAL ISSUES SEMINAR PUBLICATIONS

We are pleased to announce that the first book based upon the John M. Olin Critical Issues Seminar Series has been published by Westview Press. The book is The Soviet Union in the Third World, edited by Carol R. Saivetz.

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Piecemeal Reforms Make Many Soviets Long for Brezhnev

By MARSHALL I. GOLDMAN

Acknowledgment that the Soviet Union has run out of feed grains for its cattle is but the latest indication of Mikhail Gorbachev's difficulties with *perestroika*.

Like so many of his other economic efforts, Mr. Gorbachev's grain program has become counterproductive. Last summer the Soviet government announced a plan to pay peasants in dollars and other convertible currencies for any increase in their deliveries over the 1988 harvest. Despite the fact that the harvest rose by 16 million tons in 1989, the amount of grain offered for sale to the state fell by 26 million tons. What went wrong?

At first glance, the dollars-for-grain idea seemed to make sense. Why should the Soviets import U.S. grain and pay U.S. farmers dollars earned by exporting Soviet oil, when it would make much more sense if the Soviet Union could pay its own peasants with the dollars instead? But Mr. Gorbachev is discovering that piecemeal reform can be very dangerous.

Fearful that some of the more daring peasants might make too much money and import too many consumer goods with the dollars they would earn from extra grain sales, Soviet authorities imposed all manner of restrictions to what initially seemed to be a very simple program.

Officials prevented the peasants from spending more than one-third of their earnings on consumer goods and sharply circumscribed the selection of goods available to them. Moreover, they jacked up the prices of imported goods and imposed a service fee of one-third of whatever was spent. That limited the price paid to the peasants to only one-half the world price for grain. And the Soviets refuse to pay interest on any of the peasants' proceeds in the bank.

Once they began to see they were being exploited, the peasants decided to withhold their grain. In the 1920s something similar happened, when individual peasants hoarded grain; now the collective and state farms do so. As a consequence, last year the Soviet Union imported 36 million tons of grain—one million tons more than 1988, five million tons more than 1987 and 10 million tons more than 1986.

In 1989, one-third of all the bread baked in the Soviet Union was made with imported grain. Even worse, because of shortages of convertible currency, authorities have refused to spend any more on grain imports. As a result, feed-grain allocations for livestock are being slashed by at least 25%. This probably will mean a premature increase in the slaughter of livestock followed by a severe shortage of meat and breeding stock.

Similar disappointments have resulted from the introduction of private and cooperative businesses.

Initially only pensioners, school-age adolescents and after-hour adults could set up such firms. There were also arbitrary limits on the types of businesses and cooperatives opened. As a result, the number of such businesses was not as large as it might have been. This meant that the higher prices they charged did not serve to increase the supply of goods offered for sale in the way expected, leading to what were considered exorbitant price increases and the disappearance of goods originally intended for sale at fixed low prices in the state-regulated shops. This in turn provoked a backlash that ultimately led to the banning of certain kinds of cooperatives and the over-regulation and taxation of those cooperatives not formally banned.

The piecemeal nature of the Soviet reforms also explains the growing tendency to compartmentalize all economic activity. For example, in mid-January, local authorities in Leningrad passed regulations prohibiting food sales to anyone who could not prove he was a Leningrad resident. This was done to hamper speculators who flood the city each day to avail themselves of goods for resale in outlying regions. The same sort of procedures have been in effect in Baltic states for several months.

As a consequence, rubles—or at least rubles used to buy goods sold at artificially fixed rates—are losing their value. This is an inevitable result of growing inflation and price controls. Ration coupons are becoming more important than rubles. And when one part of the country tries to introduce price reform, it causes disruption in the neighboring republics. This is what happened when Estonia decided to deregulate the price of vodka and cigarettes. Speculators in the Russian Republic vacuumed their price-controlled stores of both products and resold them to Estonians at prices just below those of the market-determined stores.

The decision to make a half-hearted gesture at devaluation of the ruble is yet another case of what happens when officials tamper with market forces.

As of November, the Soviet government came to acknowledge that the official exchange rate is far out of line with reality. In what was seen as a bold move, the government announced a partial devaluation of the ruble; in one exchange, foreign tourists could obtain 10 times the number of rubles as before. But regular foreign trade was conducted at the old exchange rate. Responding to the arbitrage possibilities, Soviet customers emptied their stores of everything that might have any value to foreigners. As a consequence, the Soviet Union, one of the world's largest producers of watches, now is short of watches—something that never happened in the pre-Gorbachev era. The same holds for almost all appliances.

Perhaps the most disappointing aspect of the whole process is that even when the proper medicine is prescribed, the dispensers of that medicine find themselves so hamstrung that the effort seems to end up making things worse rather than better. As a result, the reform itself is now suspect. This explains why more and more Soviet citizens are looking back longingly to "the good old days" of Brezhnev and why Soviet economic reform has become more of a challenge than ever before.

Mr. Goldman is a professor of economics at Wellesley and associate director of Harvard's Russian Research Center.

No Meat, No Soap—And Now, a Crime Wave

By Dmitri N. Shalin

When the Ministry of Internal Affairs released the first detailed data on crime in the Soviet Union last February, the figures confirmed what many had suspected for some time: Crime is on the rise. As citizens clamored for action, the ministry promised extraordinary measures to fight the crime wave. It has kept its promise but nevertheless failed to stem the tide.

Indeed, 1989 may turn out to be the worst year in Soviet criminal history (not counting political purges), despite such highly publicized actions as the setting up of anti-crime committees, the assembling of special KGB teams and the mobilizing of citizen patrols. In the first 10 months of the year, crime went up in every major category compared with the same period of 1988: rape 25%, homicide and attempted homicide 28.4%, racketeering 32%, aggravated battery 42.4%, robbery 99%, motor vehicle theft 158%.

Several new developments raise particular concern, none more so than violence in public places. Much violent crime occurs in streets, parks and playgrounds, sometimes in broad daylight with passersby looking the other way. Violence is often motivated by no other reason than the desire to humiliate and cause bodily harm. A series last fall in the newspaper Sovetskaia Kultura created a stir in Moscow with its graphic depiction of sadistic crimes committed in the nation's capital.

Racketeering is another relatively new phenomenon. As cooperative and private enterprises have mushroomed, so has organized crime. Soviet papers are full of stories about kidnapping, extortion, money laundering, dealing in counterfeit currency and the like. Now that travel regulations have been relaxed, organized crime in the Soviet Union is forging ties to the West, most notably the U.S. and Israel.

A growing problem is crime against foreigners. More than 2,000 visitors were victimized in Moscow during the first six months of 1989. One common scam involves a taxi driver picking up tourists, with his buddies following in another car and staging a hold-up in a back street. Gary Basmadzhanian, a French art collector visiting Moscow at the invitation of Culture Ministry, vanished from a Moscow hotel last July. Kidnapping was at first suspected, but now murder is feared. Mindful of the effect such incidents could have on tourist industry, the authorities have announced stepped-up police patrols around spots favored by visitors.

One more unwelcome portent is the growing backlog of unsolved cases. According to Izvestia, 35% of all criminal cases registered in 1989 have been closed, at least temporarily, due to the "lack of viable clues." While crime rates went up, the number of arraignments and indictments fell precipitously, and so did the prison sentences handed down by the courts. The prison population in the Soviet Union dropped from 1.5 million in 1986 to about 800,000 at present.

Ironically, it is *glasnost* that is in part to blame for the disquiet crime creates among the population. The number of homicide cases projected for 1989—about 19,000—just about equals the number for 1979, a year that produced no public outcry. Now that crime statistics are published in every paper, the public realizes the problem's true extent and feels vulnerable.

The crime wave has affected mostly urban areas, with the bulk of felonies (73.7%) reported in major cities, where residence has always been restricted. These are the crimes that used to be cause to revoke an offender's residence permit, forcing the most dangerous criminals to settle elsewhere. Now that residence laws are less vigorously enforced, many criminals are finding their way back to the cities.

Behind the statistics one can discern a return to the old patterns of alcohol consumption. Violent crime dropped between 1986 and 1987, at the peak of the anti-drinking campaign, but it shot up in the following years, when the restrictions on alcohol sales were lifted. In the first 10 months of 1989, the crime rates went up 34%, while alcohol sales increased 28%.

Special mention must go to the sorry state of law enforcement. According to Izvestia, the nation's average annual expenditure on police is about eight rubles per citizen, compared with about $100 in the U.S. A Soviet law enforcement officer earns an average of 160 rubles a month, 74 rubles below the average national salary.

Finally, the economic reforms may well have aggravated the situation. Sociologists know that during transition periods, when old norms have shaken off and new ones haven't yet taken hold, deviant behavior tends to increase. Ill-defined and ever-changing laws haven't helped, nor have the chronic shortages of food and other basic items.

As long as the country remains in the throes of a painful economic transformation, crime rates probably will remain high. Still, there is much that can be done—investing in law enforcement, streamlining the law, setting up a peer jury system, reinforcing the statute that makes alcohol intoxication an aggravating factor in crime, and above all, pushing through economic reforms. These measures will not turn things around over night, but they will reassure the public and undermine the argument that the country is out of control.

Mr. Shalin, a University of Southern Illinois sociologist, is a visiting scholar at Harvard's Russian Research Center.